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Financial Statements

Garbell Holdings Limited

December 31, 2002

 **ERNST & YOUNG**

GARBELL HOLDINGS LIMITED

DIRECTORS

H. Anthony Arrell
Ralph M. Barford
David R. Beatty
Geoffrey A. Cumming
Edward A. Kukiel
Arthur R.A. Scace

OFFICERS

Ralph M. Barford
Geoffrey A. Cumming
Edward A. Kukiel
Irena Vones
Muriel A. Simpson

Chairman of the Board
Vice-Chairman
President and Chief Operating Officer
Secretary
Vice-President, Finance and Treasurer

HEAD OFFICE

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Standard Life Centre
P.O. Box 35
Toronto, Ontario
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FOR FURTHER INFORMATION CONTACT

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TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Ontario

**FIRST PREFERENCE SHARES LISTED
UNDER SYMBOL 'GBH.PR.A' FOR
TRADING ON:
TSX Venture Exchange**

AUDITORS

Ernst & Young LLP
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

TD Canada Trust
Toronto, Ontario



AUDITORS' COMPLIANCE REPORT

To the First Preference Shareholders of
Garbell Holdings Limited

We have audited **Garbell Holdings Limited's** compliance as at December 31, 2002 with the criteria established by Section 2, paragraphs (F) and (I) of the Articles of Amendment of the Company dated November 19, 1984. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Company's management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Company complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with the agreement and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the Company is in compliance, in all material respects, as at December 31, 2002 with the criteria established by Section 2, paragraphs (F) and (I) of the Articles of Amendment of the Company dated November 19, 1984.

Toronto, Canada,
March 28, 2003.

Ernst & Young LLP

Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Garbell Holdings Limited

We have audited the balance sheets of **Garbell Holdings Limited** as at December 31, 2002 and 2001 and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
March 28, 2003.

Ernst & Young LLP

Chartered Accountants

Garbell Holdings Limited
Incorporated under the laws of Ontario

BALANCE SHEETS

As at December 31

	2002 \$	2001 \$
ASSETS		
Long-term investments		
Investment with no quoted market value		
Gardiner Group Capital Limited [note 2]	19,705,000	19,705,000
Investments with a quoted market value of \$45,011,000 [2001 - \$44,957,000] [schedule]	36,990,000	34,266,000
Total long-term investments	56,695,000	53,971,000
Cash and cash equivalents	10,513,000	1,440,000
Dividends and other receivables	113,000	77,000
Income taxes recoverable	675,000	2,315,000
	67,996,000	57,803,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued charges	203,000	230,000
Future income taxes [note 5]	—	123,000
Total liabilities	203,000	353,000
Shareholders' equity		
Share capital [note 3]	5,781,000	5,781,000
Retained earnings	62,012,000	51,669,000
Total shareholders' equity	67,793,000	57,450,000
	67,996,000	57,803,000

See accompanying notes

On behalf of the Board:

E. Kahim

Director

Arthur Acas

Director



Garbell Holdings Limited**STATEMENTS OF INCOME AND RETAINED EARNINGS**

Years ended December 31

	2002 \$	2001 \$
REVENUE		
Dividends	1,920,000	2,083,000
Interest	475,000	311,000
Gain (loss) on disposal of long-term investments	8,221,000	(230,000)
	10,616,000	2,164,000
General and administrative expenses <i>[note 4]</i>	876,000	829,000
Income before income taxes	9,740,000	1,335,000
Recovery of income taxes <i>[note 5]</i>		
Current	(630,000)	(70,000)
Future	(123,000)	(37,000)
	(753,000)	(107,000)
Net income for the year	10,493,000	1,442,000
Retained earnings, beginning of year	51,669,000	50,377,000
Dividends paid on first preference shares	(150,000)	(150,000)
Retained earnings, end of year	62,012,000	51,669,000
Net income per share	\$12.50	\$1.56

See accompanying notes

Garbell Holdings Limited**STATEMENTS OF CASH FLOWS**

Years ended December 31

	2002 \$	2001 \$
OPERATING ACTIVITIES		
Net income for the year	10,493,000	1,442,000
Add (deduct) items not involving cash		
Loss (gain) on disposal of investments	(8,221,000)	230,000
Future income taxes	(123,000)	(37,000)
	2,149,000	1,635,000
Changes in non-cash working capital balances related to operations		
Dividends and other receivables	(36,000)	75,000
Income taxes recoverable	1,640,000	(5,022,000)
Accounts payable and accrued charges	(27,000)	4,000
Cash provided by (used in) operating activities	3,726,000	(3,308,000)
INVESTING ACTIVITIES		
Proceeds from disposal of long-term investments	30,650,000	18,284,000
Purchase of long-term investments	(25,153,000)	(14,843,000)
Cash provided by investing activities	5,497,000	3,441,000
FINANCING ACTIVITIES		
Dividends paid on first preference shares	(150,000)	(150,000)
Cash used in financing activities	(150,000)	(150,000)
Net increase (decrease) in cash and cash equivalents during the year	9,073,000	(17,000)
Cash and cash equivalents, beginning of year	1,440,000	1,457,000
Cash and cash equivalents, end of year	10,513,000	1,440,000
Supplemental cash flow information		
Interest paid	—	—
Income taxes paid	—	4,955,000
Income taxes recovered	2,294,000	—

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Garbell Holdings Limited [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies summarized below:

Long-term investments

Long-term investments are carried at cost. Investments are written down to their market value only if an other than temporary decline in market value has occurred.

The quoted market value of investments does not necessarily represent the value of entire blocks of investment holdings, which may be more or less than the value indicated by market quotations.

Dividends are recognized as income on the record date. Gains and losses from investment transactions are calculated on an average cost basis. Interest income is recorded on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities at acquisition of less than three months.

Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using tax rates and laws that are expected to be in effect when the differences are expected to reverse. Such differences arise in flow through share investments through which oil and gas exploration incentives can be claimed by the investor.

Garbell Holdings Limited

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the determination of net income for the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. INVESTMENT IN GARDINER GROUP CAPITAL LIMITED

The investment in Gardiner Group Capital Limited ["Gardiner Group"] is as follows:

	2002 \$	2001 \$
35,800 first preference shares, at cost	19,705,000	19,705,000

The first preference shares of Gardiner Group are redeemable at any time at the option of Gardiner Group or the Company at \$866 per share.

In addition, the first preference shares of Gardiner Group are non-voting and are entitled to a fixed cumulative dividend of \$23 per share per annum. In 2002, dividends of \$823,000 [2001 - \$823,000] were paid on the first preference shares.

Gardiner Group is a private investment holding company incorporated under the laws of Ontario. The Company owns 100% of the first preference shares of Gardiner Group and has the right to elect one of six directors of Gardiner Group.



Garbell Holdings Limited**NOTES TO FINANCIAL STATEMENTS**

December 31, 2002

3. SHARE CAPITAL

Share capital consists of the following:

	2002 \$	2001 \$
Authorized		
285,900 10.5% cumulative, redeemable, voting first preference shares		
2,381,059 8% non-cumulative, non-voting second preference shares without par value, redeemable at \$10 per share		
988,655 common shares		
Issued and outstanding		
285,900 first preference shares	1,430,000	1,430,000
76 second preference shares	1,000	1,000
827,335 common shares	4,350,000	4,350,000
	5,781,000	5,781,000

The first preference shares are redeemable on a pro-rata basis at the option of the Company at \$5 per share plus accumulated dividends.

The Company is required to make a reasonable effort to purchase for cancellation up to 6,000 first preference shares annually in the open market at prices not exceeding \$5 per share plus accumulated dividends unless the purchase price of such shares is in excess of their fair market value as determined in relation to yields on comparable preference shares of Canadian corporations. No first preference shares were redeemed or repurchased in 2002 or 2001. Each first preference share entitles the owner to four votes.

The first preference shares are subject to certain tests with respect to the maintenance of qualified investments and net asset values. These tests were met as at December 31, 2002.

The second preference shares are redeemable at \$10 per share at the option of the holder or the Company, subject to the conditions of the first preference shares being fulfilled.

Garbell Holdings Limited**NOTES TO FINANCIAL STATEMENTS**

December 31, 2002

4. GENERAL AND ADMINISTRATIVE EXPENSES

During the year, the Company reimbursed Gardiner Group for general and administrative expenses of \$38,000 [2001 - \$128,000] which were incurred by Gardiner Group on the Company's behalf.

5. INCOME TAXES

A reconciliation of the recovery of income taxes calculated at the statutory rate to the amount provided in the financial statements is as follows:

	2002 \$	2001 \$
Income taxes at statutory rate of 39% [2001 - 43%]	3,799,000	574,000
Add (deduct)		
Non-taxable portion of loss (gain) on disposal of investments	(3,850,000)	48,000
Legislative changes to tax rates	(68,000)	—
Non-taxable dividends from Canadian corporations	(634,000)	(709,000)
Miscellaneous	—	(20,000)
	(753,000)	(107,000)

The components of the future tax liability are as follows:

	2002 \$	2001 \$
Difference in tax cost and book cost of investments	—	125,000
Unclaimed tax deductions	—	(2,000)
	—	123,000

SCHEDULE OF INVESTMENTS WITH A QUOTED MARKET VALUE cont'd

As at December 31, 2002

Description	Carrying value \$	Market value \$
U.S. common shares		
17,100 Albertsons Inc.	638,000	601,000
3,500 Becton Dickinson and Company	175,000	170,000
66 Berkshire Hathaway Inc., Class A	6,980,000	7,583,000
7,000 Citigroup Inc.	369,000	389,000
27,300 Dun & Bradstreet Corp., New	863,000	1,487,000
8,000 El Paso Corporation	137,000	88,000
12,000 Flextronics International Ltd.	148,000	155,000
3,000 Guidant Corporation	147,000	146,000
8,500 IMS Health Inc.	221,000	215,000
3,000 Kelly Services Inc.	108,000	117,000
20,800 Liberty Media Corp., Class A	223,000	293,000
3,000 Loew's Corp.	239,000	210,000
4,500 Merck & Co. Inc.	293,000	402,000
14,000 Moody's Corporation	614,000	913,000
6,000 National Semiconductor Corp.	178,000	142,000
9,000 Pall Corporation	238,000	237,000
47,600 Phillip Morris Companies Inc.	2,224,000	3,046,000
28,000 Progressive Corp.	452,000	2,195,000
5,000 Safeway Inc.	176,000	184,000
2,000 Scholastic Corp.	128,000	113,000
2,500 Transkaryotic Therapies, Inc.	147,000	39,000
20,000 Vertex Pharmaceutical Inc.	533,000	500,000
3,075 Washington Post, Class B	2,375,000	3,584,000
7,500 Zymogenetics Inc.	80,000	117,000
	17,686,000	22,926,000
	36,990,000	45,011,000

SCHEDULE OF INVESTMENTS
WITH A QUOTED MARKET VALUE cont'd

As at December 31, 2002

* The total debt investment outstanding, at maturity values, as at December 31, 2002 bears interest at average annual rates ranging from 4.25% to 6.75% and is due as follows:

	\$
2004	1,073,000
2007	260,000
2008	2,700,000
	<hr/> 4,033,000 <hr/>

SCHEDULE OF INVESTMENTS WITH A QUOTED MARKET VALUE

As at December 31, 2001

Description	Carrying value \$	Market value \$
Canadian preferred shares and trust units		
2,500,000 Conoco Canada Resources Limited, Series 1 preferred [formerly Gulf Canada Resources]	8,805,000	10,750,000
71,250 PrimeWest Energy Trust Units	2,531,000	1,813,000
	11,336,000	12,563,000
Bonds and debentures		
400,000 Gov't of Canada, 6%, 01 Jun 08	405,000	420,000
1,000,000 Gov't of Canada, 7.25%, 01 Jun 07	1,107,000	1,113,000
700,000 Precision Drilling, 6.85%, 26 Jun 07	733,000	706,000
500,000 Prov of New Brunswick, 5.7%, 02 Jun 08	488,000	509,000
500,000 Prov of Ontario, 6.125%, 12 Sep 07	501,000	525,000
	3,234,000	3,273,000
Canadian common shares		
56,600 Great West Lifeco Inc.	1,559,000	1,941,000
108,290 Heroux Inc.	339,000	1,083,000
53,300 Investors Group Inc.	1,161,000	1,359,000
93,300 Ritchie Brothers Auctioneers Inc.	3,472,000	3,697,000
81,300 Rothmans Inc.	1,975,000	2,427,000
2,553,556 Spire Energy Ltd.	1,791,000	4,341,000
	10,297,000	14,848,000
U.S. common shares		
24,000 Albertsons Inc.	896,000	1,204,000
25 Berkshire Hathaway Inc., Class A	2,676,000	3,010,000
27,300 Dun & Bradstreet Corp., New	863,000	1,535,000
7,800 Hillenbrand Industries Inc.	352,000	687,000
14,000 Moody's Corporation	613,000	889,000
25,300 Phillip Morris Companies Inc.	789,000	1,848,000
11,600 Progressive Corp.	1,093,000	2,758,000
2,775 Washington Post, Class B	2,117,000	2,342,000
	9,399,000	14,273,000
	34,266,000	44,957,000

